

Gas Cost Adjustments: A Guide for Consumers

OUCC

Indiana Office of Utility Consumer Counselor
100 N. Senate Avenue, Room 501
Indianapolis, Indiana 46204-2215
www.IN.gov/oucc

Fact Sheet

Toll-free 1-888-441-2494
Voice/TDD (317) 232-2494
Fax (317) 232-5923
UCCINFO@ucclan.state.in.us

Quick Facts:

- ◆ Gas Cost Adjustments (GCAs) are used to recover actual wholesale gas costs.
- ◆ Utilities **may not profit** from GCAs.
- ◆ GCAs are thoroughly reviewed by the State before being implemented in bills.
- ◆ Regulated natural gas utilities have used the GCA process since the 1980s.

The Gas Cost Adjustment (GCA) is a periodic rate adjustment that allows natural gas utilities to account for changes in the price of natural gas they purchase on the competitive wholesale market. This process, which applies to all regulated* natural gas utilities in Indiana, was created by and is administered under state law.



Natural gas utilities have been using the GCA process for a number of years (in most cases, since the early 1980s). The GCA process came into existence after two major events: 1) The energy crisis of the 1970s and 2) The federal government's approval of the Natural Gas Act of 1978, which removed federal price controls on wholesale natural gas markets.

The GCA process has traditionally been "invisible" on monthly consumer bills. Recently, however, some Indiana natural gas utilities have started to specifically identify the "Gas Cost Adjustment" in a line item on each bill.

The Indiana Office of Utility Consumer Counselor (OUCC) encourages consumers to be aware of several facts about GCAs and the GCA process:

This fact sheet is intended to provide a general summary only. For specific legal authority concerning gas cost adjustment proceedings, please refer to the Indiana Code (IC 8-1-2-42(g)) and the Indiana Administrative Code (IAC 170). Both are available on the Internet at www.IN.gov/legislative/ic_iac and at local libraries.

1. Regulated natural gas utilities are allowed by law to make these adjustments to recover actual wholesale costs.

- Utilities **may not profit** from these adjustments, but merely recover the price they have paid for gas.
- Prices on the competitive wholesale market for natural gas are volatile. They can sharply increase or decrease in a short period of time.
- Before natural gas utilities can pass wholesale costs to consumers through GCAs, they must prove that they have made every effort to procure gas at the lowest cost reasonably possible.

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**Under Indiana law (IC 8-1.5-3), municipal natural gas utilities may withdraw from IURC jurisdiction of their rates, charges and finances. For more information, please see the OUCC Fact Sheet on "Utility Withdrawal from IURC Jurisdiction."*

The Indiana Office of Utility Consumer Counselor (OUCC) is the state agency that represents the interests of all utility consumers and the general public in matters related to the provision of utility services.

The agency is active in proceedings before regulatory and legal bodies, and committed to giving consumers a voice in the creation of utility service policy.

2. A GCA has two basic components.

- An estimate of the market price of the natural gas itself, along with transportation charges to deliver it to the utility over the upcoming GCA period; and
- A “true-up” to correct overestimates and/or underestimates from previous GCA periods. The “true-up” amount is usually recovered or reimbursed over a 12-month period.

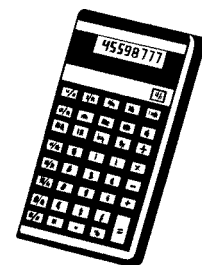
3. Every GCA filing receives a thorough review by the Indiana Office of Utility Consumer Counselor (OUCC) and the Indiana Utility Regulatory Commission (IURC).

- The OUCC reviews GCA filings on behalf of consumers.
- By law, the IURC’s review and decision must balance utility and consumer interests.

4. Natural gas utilities submit GCA filings to the Indiana Utility Regulatory Commission (IURC) on a regular basis, and must receive IURC approval before factoring the adjustments into consumer bills.

- Under Indiana law, most natural gas utilities submit GCA filings every three months. However, some of the state’s utilities go through the process every six months.

- Three Indiana natural gas utilities have received IURC permission to adjust gas costs monthly.**



5. Once a GCA is approved, the utility adds it to, or subtracts it from, the base rates. In order to change base natural gas rates, a full rate proceeding before the IURC is required.

Sample Monthly Gas Bill Calculation
(Figures in this table are for illustrative purposes only, and will vary by utility.)

BILL ITEM	Basic Amount	Calculation	Total Item Amount
Service Charge	\$ 9.00	Flat monthly charge	\$ 9.00
Base Rate Charge	50¢/therm	Multiply by 100 therms	\$ 50.00
<i>Gas Cost Adjustment</i>	12¢/therm	Multiply by 100 therms	\$ 12.00
SubTotal			\$ 71.00
Sales Tax		6% of SubTotal	\$ 4.26
TOTAL BILL.....			\$ 75.26

For more information, please refer to the OUCC’s Natural Gas Prices Fact Sheet. Consumers can review the Fact Sheet online at www.IN.gov/oucc or request a free copy by contacting the OUCC’s consumer services staff at 1-888-441-2494.

** Northern Indiana Public Service Company (NIPSCO) uses a monthly GCA as a result of its natural gas Choice program. NIPSCO’s alternative regulatory plan also includes a Gas Cost Incentive Mechanism (GCIM) that allows consumers to share in the savings if the company’s purchase prices are lower than market indexes.

Citizens Gas and Coke Utility is now making limited monthly adjustments on a one-year trial basis.

Valley Rural Utility Company (VRUC) will operate under an alternative regulatory plan in providing natural gas service to customers in Dearborn County. VRUC is a very small, not-for-profit utility.